



GERALD A. SILVA
City Auditor

*OFFICE OF THE
CITY AUDITOR*

**REPORT ON
THE ACTIVITIES AND ACCOMPLISHMENTS
OF THE OFFICE OF CITY AUDITOR
MAY 1, 1985 THROUGH SEPTEMBER 30, 1986**

*A REPORT TO THE
SAN JOSE
CITY COUNCIL*

DECEMBER 1986



CITY OF SAN JOSÉ, CALIFORNIA

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GERALD A. SILVA
City Auditor

December 31, 1986

Honorable Mayor and Members
of the City Council
801 North First Street, Room 600
San Jose, CA 95110

Transmitted herewith is a Report of the Activities and Accomplishments of the Office of the City Auditor for the period May 1, 1985 through September 30, 1986. This is the second such report I have prepared. I intend to issue similar reports on a regular basis as a means of enhancing the City Auditor's accountability to the City Council.

The 17 months that are covered in this report have seen tremendous change and growth in the Office of the City Auditor. I am very grateful to the City Council for the support and acceptance they have afforded me that has made this change and growth possible. I think it is fair to say that the Office has come a long way since May 1, 1985. However, as with any organization, further improvements are possible and necessary. I am looking forward to working with the City Council and the Administration to secure those improvements for the Office and ultimately for the City of San Jose.

I will present this report to the Finance Committee at its January 12, 1987 meeting. If you need any additional information, please let me know.

Respectfully submitted,

Gerald A. Silva
City Auditor

GS:b



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City Auditor

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SUMMARY

This is the second report on the activities of the Office of the City Auditor. The first report covered the period July 1, 1982 through April 30, 1985.

The period from May 1, 1985 through September 30, 1986 was one of tremendous growth and change for the Office of the City Auditor. During that period, the Office expanded the scope and volume of its audit work. New classes of auditors were created and new employees were hired to fill those positions. The Office of the City Auditor itself was refurbished and new equipment was added. In addition, the style and content of audit reports were changed to be more aesthetically pleasing and effective in conveying audit findings.

The end result of all these efforts is an Office of the City Auditor that is 1) more professional and effective in appearance and in fact, and 2) more responsive to the needs of the City Council, the Administration, and the citizens of San Jose.

In my first report, I stated that:

"...From July 1, 1982 to April 30, 1985, the Office of the City Auditor expended \$1,462,860. During that same period the office produced 59 reports containing 50 recommendations. Of the 59 reports issued, only two contained recommendations to either reduce costs or increase revenues. While not specifically identified in the reports, the savings involved is estimated to be \$38,500. In addition, these same reports contained only 2 recommendations to improve efficiency or effectiveness..."

By way of contrast, during the period from May 1, 1985, through September 30, 1986, the Office expended \$1,155,262 and produced 34 reports containing 133 recommendations. Of these 34 reports, 8 contained recommendations to either reduce costs or increase revenues amounting to \$3,223,712.* Further, these reports contained 100 recommendations to improve efficiency or effectiveness. Schedule 1, beginning on page 17-1, is a summary of the Office of the City Auditor activity costs and results for the period May 1, 1985 through September 30, 1986.

The 17 months that are chronicled in this report have been challenging and rewarding. Despite frequent staff vacancies and unexpected requests for audits, good progress was and is being made toward ambitious 1985-86 and 1986-87 audit Workplans. The City Council and the Administration have been very responsive to the expanded role of the Office of the City Auditor. The Office will continue to strive to maintain those relationships and to be even more responsive to the needs of the City of San Jose.

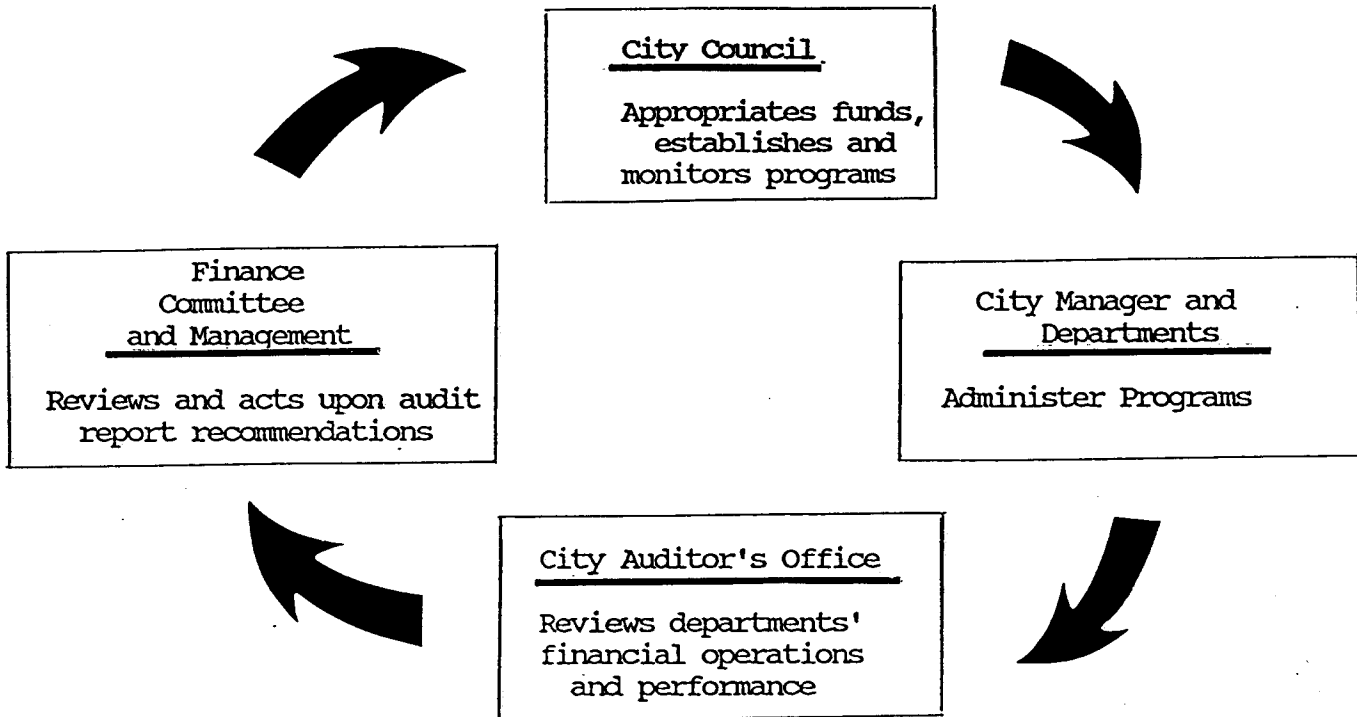
*The \$3,223,712 is comprised of the following: \$426,348 from audit reports; \$223,434 from Agenda Analyses and \$2,573,930 from Budget Analyses.

ROLE OF THE CITY AUDITOR'S OFFICE

The budget for the programs and activities of the City of San Jose now exceeds one billion dollars a year. As the size of the City government grows, so does the City Council's need for an effective means to monitor the use of tax dollars and the activities of City departments and programs. An independent audit function is an integral part of that oversight process. Findings and recommendations developed through the audit process can help save tax dollars and improve the management of City programs. Additionally, independent audits serve as an important information source for the City Council, City management and the general public.

The City Auditor is appointed by and reports to the City Council. The Finance Committee, one of five standing committees of the City Council, has the primary responsibility of approving the scope of audit work, reviewing audit report findings and recommendations, and monitoring the implementation of recommendations. Audit requests are usually first submitted to the Finance Committee for approval prior to City Auditor involvement.

ROLE OF AUDITING IN CITY GOVERNMENT



Office of the City Auditor audits and reviews provide an insight into City departments and their programs. Such audits and reviews are but one step in the process of establishing City programs, evaluating their performance, providing the City Council and the Administration with needed information, and making any necessary changes to ensure that City programs are as effective as possible.

Section 805 of the San Jose Municipal Code establishes the Office of the City Auditor and outlines the Auditor's primary duties as follows:

- o Conduct a post audit of all the City's fiscal transactions including the examination and analysis of fiscal procedures and the examination, checking and verification of accounts and expenditures;
- o Submit a monthly report to the City Council of the Office activities, findings and recommendations to improve the administration of the City's fiscal affairs; and
- o Perform other such auditing functions consistent with the Office's charter and submit reports as required.

Since the City Auditor's last report to the Council in June 1985, the concept of "other auditing functions" has been expanded to include the auditing of City programs and management performance, or "performance auditing." This auditing concept is described in greater detail in a later section.

ORGANIZATION AND STAFF

The City Auditor's Office has 19 authorized full-time positions including both audit and administrative staff. The Office's budget for 1986-87 is \$1.04 million.

The members of the City Auditor's Office have diverse educational backgrounds and work experience. Staff educational

backgrounds include accounting, business administration, civil engineering, economics, education, finance, and public administration. Further, several staff members have advanced academic degrees or professional certificates. In addition, staff members have previous experience in public accounting, city government, public administration, aerospace, banking, data processing, electronics, management consulting, industrial relations, and retail. This wide range of training and experience helps bring a broad perspective to the variety of audit work the Office conducts.

Memberships in professional organizations include the American Institute of Certified Public Accountants, American Society for Public Administration, American Management Association, American Compensation Association, American Society of Personnel Administrators, EDP Auditors Association, Governmental Finance Officers Association, and the Western Intergovernmental Audit Forum.

MAJOR DEVELOPMENTS IN THE
OFFICE OF THE CITY AUDITOR

Since the Office's last annual report in June 1985, the City Auditor's Office has undergone significant changes in audit emphasis and scope, staffing, facilities, equipment, training, and reporting. As a result the Office's professionalism has been enhanced to the benefit of the City.

Staffing

The City Auditor was authorized additional staff in order to implement the expanded scope performance audits. These positions included: one Assistant City Auditor, four Senior Program Performance Auditors, and one Word Processor Operator. The new staff were hired but due to transfers and retirements the staff complement was continually short by as much as five staff members.

In general, auditors work in teams of two or more depending on the workload and projected time frames of an assignment. Auditors are assigned to projects on the basis of the particular audit skills needed to perform the work. Typically, a fiscal and a performance auditor will work together on a team to ensure the team collectively possesses the professional proficiency required to accomplish the audit task.

A list of our staff members follows:

Professional Staff

Gerald A. Silva - CPA
Jeffrey L. Mikles - MPA

Kenneth M. Arimura - CPA (Pending)
Gerald N. Baiocchi
Nestor S. Baula - CPA, CIA

Juan E. Bettaglio - MBA
Rene E. Bulan
Fred B. Casuga
Charles D. Christensen, Jr. - CPA, CISA
Jan Heimann-Cook - MPA
Michael A. Edmonds - CIA
Ruth Garcia
Nancy R. Keeley - MPA
Dominador S. Melendez - CPA (Pending)
Joseph S. Morical - M.A.
Taylor L. Willingham

Administrative Staff

Bonnie J. Leslie

Mary N. DaRosa
Minh Le Tran

Audit Emphasis Change

In the June 1985 report, the City Auditor recognized the need to utilize resources more efficiently and effectively. He proposed to remedy this situation by 1) conducting the chartered fiscal audits more efficiently, and 2) securing additional staff to conduct expanded scope performance audits.

Initially, the City Auditor reduced the time spent on the charter required audits by changing the audit cycle from continuous to periodic. These audits include reviews of payroll non-personal services expenditures, cash and revenue accounts and parking revenue. Statistical sampling of these financial areas on a periodic basis has resulted in a high degree of accuracy and a more efficient use of staff time.

Next, the City Auditor redirected his remaining staff resources to program performance auditing and special studies. As a result, over the 17-month period, the audit staff completed 11 performance audits, 7 compliance reviews, 5 special studies, and various other reviews in addition to the charter required audits. Schedule 1, beginning on page 17-1, is a summary of the City Auditor's activity costs and results for the period May 1, 1985 through September 30, 1986.

Office Renovation

To provide additional room and resources for new staff, the office underwent a major physical renovation. Several interior walls were removed resulting in an "open space" motif. In addition, new office furniture, equipment, and telephones were purchased which boosted both productivity and morale. For example, the Office replaced its outdated word processing equipment with an advanced computer and a laser printer to provide more professional looking reports much faster. In addition, the Office added a high speed multifunctional copier to accommodate the 250,000 copies the Office produced last year. Further, seven new computers were purchased. These computers have allowed the auditors to record and analyze data in a fraction of the time it would have taken manually. The use of state-of-the-art software, such as Lotus 1-2-3 and Dbase III, has proved invaluable on several assignments.

Training

The City Auditor has also begun a formal program to upgrade the Office's professional capabilities by providing staff members with more internal and external training. A training needs assessment was conducted to match individual staff needs with available training resources and programs. The following training courses were among those attended by the staff:

- o Citizens Relations
- o EDP Auditing
- o Financial Auditing Accounting Standards
- o Management Auditing
- o Workpaper Techniques
- o Effective Writing Skills
- o Supervisory Skills
- o Interviewing Skills
- o Time Management
- o Lotus 1,2,3 and other EDP Training

Reporting

As part of a new image program, the City Auditor's reports were revised with new covers, format and text. The changes have produced a more professional product which is easier and more efficient to read. The new reports readily identify major findings, conclusions and recommendations.

AUDITING CITY DEPARTMENTS AND PROGRAMS

The City Auditor's Office conducts expanded scope auditing in conformance to audit standards promulgated by the United States General Accounting Office (Appendix II). The three types of expanded scope auditing are financial and compliance audits, economy and efficiency audits, and program results audits. Economy and efficiency, and program results audits are commonly known as performance or operational audits. The Office also reviews EDP systems in accordance with US General Accounting Office (GAO) audit standards and produces special reports that present objective information on issues.

Financial and Compliance Audits

In accordance with the City Charter, the annual audit of the City's financial statement is performed by an outside independent public accounting firm. This audit determines whether the financial statements fairly present the financial condition of the City in accordance with generally accepted accounting principles. The annual outside audit also includes reviews to determine City compliance with laws and regulations, particularly for those programs receiving federal funding.

The City Auditor's Office also conducts financial and compliance audits, but the nature and scope of these audits differs significantly from the external audit of the City's financial statements. The primary emphasis of financial and compliance audits conducted by the Office is to assess whether the City's internal control systems ensure that:

- o Resources are used in accordance with laws, regulations, and policies.
- o Reliable data is obtained, maintained, and properly disclosed in financial and management reports.
- o Resources are safeguarded against loss due to fraud, theft, errors, and mismanagement.

While the City Auditor's Office emphasizes the evaluation of internal controls in all of the audits it conducts, our financial and compliance audits focus primarily on internal control issues. These audits provide City management with the objective information it needs to ensure that the internal control systems are working as intended.

Operational and Performance Audits

Operational and performance audits evaluate whether City programs are conducted in an efficient and economical manner and are accomplishing their intended objectives. Audits that focus on program efficiency typically evaluate the reasonableness of program costs relative to the results of services

produced. Auditors determine if a program is utilizing its resources, such as personnel, property, and space, in a manner that avoids duplication of effort and overstaffing, while maximizing benefits in relation to costs. Reports make recommendations for management action to correct inefficient practices or to improve procedures in order to maximize resource utilization and productivity.

Other operational or performance audits review the effectiveness of programs in achieving desired levels of performance or results. These audits are termed program results or effectiveness audits. Major elements of a program results audit include determining if a program has established appropriate goals and objectives, reviewing the adequacy of management's system for measuring success, assessing the extent to which desired levels of results are achieved, and identifying factors that inhibit satisfactory performance. Audit reports that review the effectiveness of a program generally make recommendations to change management systems, City policies, and Ordinances.

Auditing EDP Systems

EDP or information system audits review 1) general and application controls and 2) City data processing systems. These audits determine whether controls are designed according to

management and legal requirements and provide data that is timely, accurate, reliable and complete. EDP audits also assist management in ensuring that automated systems 1) contain built-in controls for proper operation, 2) provide a trail with which events can be tracked through the system, and 3) ensure accurate classification of data in City financial statements.

Special Reports

The City Auditor's Office frequently receives requests for information on issues that do not require detailed audit review but need thorough and impartial data collection analysis and reporting. The Office produces special studies to address these information needs. Special studies and reports are subject to the same rigorous audit methodology regarding data collection and quality control reviews. Special studies are intended to provide timely and objective information to the City Council, the Administration, and the public.

Annual Workplan

In advance of each fiscal year, the City Auditor independently selects the audits to be performed in the forthcoming year and incorporates them into an Annual Workplan. Before formalizing the proposed workplan, the City

Auditor receives input from the City Administration on areas needing audit and review. During May or June, the City Auditor submits his proposed workplan to the Finance Committee for approval.

In addition to Workplan audits, the City Auditor's Office conducts unscheduled audits as requested by City Council members or the City Manager. These requests are approved subject to the procedure shown in Appendix III.

Finally, the City Auditor reports Workplan progress monthly to the Finance Committee, City Council, and the City Administration.

BENEFITS TO THE CITY OF SAN JOSE

The City Auditor's expanded and refocused approach to audit work benefits the City in a variety of ways. Many of the audits contain recommendations to reduce costs or increase revenues. While other reports may not produce measurable monetary benefits, they do contain recommendations to increase effectiveness, use resources more efficiently, and improve internal controls. Other audits or special studies provide objective information to the City Council, City Administration, and the public. Schedule 1, beginning on page 17-1, summarizes the results of City Auditor activities for the period May 1, 1985 through September 30, 1986.

Cost Savings and
Increased Revenue

Audit work sometimes reveals that a Department's operations are not managed as efficiently and economically as possible. City Auditor findings and recommendations often address ways to save the City money or to increase revenues. For example, the audit of the City's Non-Personal Expenditures for 1984-85 found internal control and procedural weaknesses relating to certain vendor payment. We determined that the City could have saved as much as \$265,500, by instituting new procedures and complying with existing City policies and procedures.

In addition, our audit of the City's Parking Operations indicates that some designated parking meter zones do not have parking meters. We estimated that if as few as 100 parking meters were installed in these zones, the City could collect an additional \$52,000 per year in parking meter revenues.

Further, our review of the City's contracted weed abatement program revealed that the contractor significantly overbilled the City. Depending on the assumption, the overbilling ranged from \$37,000 to \$91,300.

In total, audit report recommendations could generate \$426,348 in cost savings or additional revenues.

Improve Efficiency and Effectiveness

Audit recommendations often address ways in which a department can improve the management of its operations by increasing its efficiency and effectiveness. Although the dollar value of improvements cannot be precisely measured, implementing changes has the potential for long-term benefits in improved services and programs. For example, our recent audit of the City's Purchasing function found that opportunities exist to significantly improve responsiveness to purchase requisitions and warehouse processing time, reduce operating costs, and improve monitoring of vendor performance.

In addition, our Cash & Revenue audit for 1984-85 recommended policy, procedural and form changes to deposit revenues more efficiently and generate additional interest income.

Strengthen Controls

Audits also identify ways to improve departmental and program internal controls, safeguard assets, and reduce potential risk of liability to the City. Our review of the City's Parking Operations revealed a pervasive absence of adequate controls which makes parking revenues susceptible to undetected theft. We also conducted a year-long compliance review of the City and Redevelopment Agency investment transactions which resulted in seven reports and 30 recommendations concerning internal controls, documentation, and compliance with investment policy requirements. Internal control and policy compliance are essential to safeguarding portfolio assets totaling more than \$400 million. The City is making substantial progress on the implementation of these recommendations.

Providing Objective Information

Audit reports and special studies can provide reliable, objective and timely information to decision-makers and the public. This information can assist the Council and Departments in making needed changes in policy and administration, and help the public become more knowledgeable about the management of

its City government. Our recent report on franchised towing provided valuable information to the Administration and the Council on the lack of profitability of City-generated tows for the nine franchise towing companies.

In addition, at the request of the City Council, we also prepared special analyses of four of the Council's agendas which involved analyzing 89 items based upon financial and economic impact criteria. In each case, the turnaround time was less than five working days. We also independently analyzed two City Department budgets for 1986-87 and made several budget reduction recommendations. Finally, the Office provided the City Council, sitting as the Redevelopment Agency Board, with two special reports. The first report was an analysis of the advantages and disadvantages of Tax Allocation Bonds versus Certificates of Participation. The second report was an independent analysis of the Redevelopment Agency's five year revenue projection.

SUMMARY OF WORK PERFORMED
(MAY 1985 - SEPTEMBER 1986)

From May 1985 through September 1986, the City Auditor's Office completed 11 fiscal/performance audits of City programs and activities, 7 investment compliance reviews, 5 special analyses of City Council agendas and City budgets and various other reviews. A narrative summary of these reports follows. In addition, an activity cost and results summary is provided on Schedule 1 beginning on page 17-1.

SCHEDULE I

OFFICE OF THE CITY AUDITOR

Summary of Activity Costs and Results For the Period May 1, 1985 Through September 30, 1986

Reports Issued	Estimated Audit Cost	Identified Opportunities to Increase Revenues/ Reduce Costs	Number of Recommendations		Number of Recommendations to Strengthen Internal Controls	Informational
			to Improve Efficiency/ Effectiveness	(1) / (2)	(1) / (2)	
Workers Compensation Appropriation Review	\$ 1,211		(2) / (2)			X
Quarterly Follow-Up on Audit Recommendations As of April 1985	5,000					X
Circumstances Related to the Underreporting of April 1985 Revenue Sharing Receipts	300				(3) / (3)	
Review of the Administration's Work Management System	5,000		(2) / (2)			
(1) Recommended (2) Implemented						

Reports Issued	Estimated Audit Cost	Identified Opportunities to Increase Revenues/ Reduce Costs	Number of Recommendations to Improve Efficiency/ Effectiveness (1) / (2)	Number of Recommendations to Strengthen Internal Controls (1) / (2)	Informational
FLSA Implementation Review	4,904				X
Follow-Up Review of The Administration's Method of Projecting Worker's Compensation Fund Requirements	1,200		(1) / (1)		
Quarterly Follow-Up on Audit Recommendations as of July 31, 1985	5,000				X
Analysis of Contractor Billings under the Weed Abatement Contract	3,998	\$ 91,000			
A Compliance Audit of the City and Redevelopment Agency Investment Programs for:					
September, 1985			(9) / (8)		
October 1985			(10) / (8)	(2) / (2)	
November & December 1985			(4) / (2)		
January & February 1986					
March & April 1986			(2) / (2)	(1) / (1)	
May & June 1986				(2) / (2)	
July & August 1986					
Total	\$217,953				
(1) Recommended					
(2) Implemented					

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Reports Issued	Estimated Audit Cost	Identified Opportunities to Increase Revenues/ Reduce Costs	Number of Recommendations to Improve Efficiency/ Effectiveness		Number of Recommendations to Strengthen Internal Controls		Informational
			(1)	(2)	(1)	(2)	
City Venture Corporation's Community Development Block Grant Funded Project For the City of San Jose	\$ 22,994	\$ 109,473	(3)	(3)			
An Audit of the City of San Jose's Deferred Compensation Plan	24,003		(3)	(3)			
Analysis of the City of San Jose Redevelopment Agency Tax Increment Revenues	4,000						X
An Audit of the City's Payroll Disbursements for the Six Months Ending June 29, 1985	22,080				(3)	(3)	
An Audit of the City's Non-Personal Expenditures for the Fiscal Year 1984-85	42,154	126,875	(5)	(5)			
Audit of the City Department Revenue and Cash Handling Procedures	15,821				(3)	(3)	
(1) Recommended (2) Implemented							

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Reports Issued	Estimated Audit Cost	Identified Opportunities to Increase Revenues/ Reduce Costs	Number of Recommendations to Improve Efficiency/ Effectiveness (1) / (2)	Number of Recommendations to Strengthen Internal Controls (1) / (2)	Informational
A Review of City Franchised Towing	10,071		(3) / (3)		
Analysis of City Council Agenda Items for Financial Impact or Economic Implications for: May 6, 1986 May 13, 1986 May 20, 1986 June 3, 1986		218,434 5,000	(12) / (*) (5) / (*) (2) / (*)		
Review of City Department Budget Recommendations Total	19,880	2,573,930	(6) / (*)		
Continuous Appropriations for Multi-Year Capital Project	220				X
Review of Interest Earnings on Federated Retirement Deductions	1,246				X
Audit of City Parking Operations	197,798	66,000	(13) / (13)**	(19) / (19)**	
(1) Recommended (2) Implemented					

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Reports Issued	Estimated Audit Cost	Identified Opportunities to Increase Revenues/ Reduce Costs	Number of Recommendations to Improve Efficiency/ Effectiveness (1) / (2)	Number of Recommendations to Strengthen Internal Controls (1) / (2)	Informational
A Performance Audit of Purchasing Operations	86,620	33,000	(18) / (18)**		
Quarterly Follow-Up on Audit Recommendations As of July 31, 1986	5,000				X
Evaluation of Redevelopment Financing Alternatives	4,000				X
Analysis of the Proposed EDA Revolving Loan Fund	2,492				X
	<u>\$702,925</u>	<u>\$3,223,712</u>	<u>(100) / (70)</u>	<u>(33) / (33)</u>	
(1) Recommended					
(2) Implemented					

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<u>Assignments in Progress</u>	<u>Estimated Audit Cost</u>
A Performance Audit of the City's Capital Budget Administration	141,153
A Performance Audit of The Parks and Recreation Department's Maintenance Program	69,769
A Performance Audit of Revenue Collections	112,745
A Performance Audit of The Redevelopment Agency	40,439
A Review of Consultant Contracts	22,922
An Audit of the City's Nonpersonal Expenditures for the Fiscal Year 1985-86	8,406
A Performance Audit of The City's and Redevelopment Agency Investment Programs	<u>4,347</u>
	<u>399,781</u>

Reports Issued	Estimated Audit Cost	Identified Opportunities to Increase Revenues/ Reduce Costs	Number of Recommendations to Improve Efficiency/ Effectiveness (1) / (2)	Number of Recommendations to Strengthen Internal Controls (1) / (2)	Informational
Single Audit of Grants	9,112				
EDP Auditing	19,404				
Other	<u>24,040</u>				
	<u>52,556</u>				
TOTALS	<u>1,155,262</u>	<u>\$3,223,712</u>	<u>(100) / (70)</u>	<u>(33) / (33)</u>	

(1) Recommended
(2) Implemented

* The City Council did not formally approve the proposed recommendations

** ALL recommendations are being implemented

FISCAL/PERFORMANCE AUDIT REPORTS

Quarterly Revenue Sharing Deposit (July 1985)

Our review of the circumstances related to the under-reporting of revenue sharing receipts in April 1985 revealed that the City relies on the experience and knowledge of key personnel in the Accounting and Treasury Divisions to insure prompt and accurate recording of City banking transactions. Formal written instructions do not exist to supplement those experienced employees or provide training for other employees. As a result, when two key employees retired from the Accounting and Treasury divisions in January and March 1985, a \$2,132,775 Revenue Sharing deposit in the City's bank account went unrecorded for 49 days.

We recommended that responsibilities be defined and written procedures developed for verifying revenue vouchers, and processing incoming bank transfers.

Work Management System (August 1985)

Our review of the Administration's Work Management System revealed that certain requisite effectiveness measurement system elements are either missing or are inconsistently

applied. In addition, the Administration's proposed timeline for interaction with the City Council is incongruent with the Administration's trimester performance review process. Finally, it appears that the Work Project component of the Administration's Work Management System has a potential to constitute de facto policy or budget formulation that is more properly in the City Council's purview.

We recommended that the City Council Committee of the Whole or Standing Committees establish a formal procedure for reviewing Work Programs and Work Projects. Such a review should correspond to the Administration's trimester reporting system. In addition, the Administration should initiate a process to assess the propriety of Work Program targets and the reliability and accuracy of reported actual results.

Workers' Compensation Program (September 1985)

Our review revealed that in calculating the Workers' Compensation appropriation for 1985-86, the Administration 1) made a mathematical error which understated the appropriation necessary by \$600,000, and 2) used a methodology which arguably understated the appropriation necessary by an additional \$900,000 or a total of \$1.5 million. As a result, it is possible that an additional appropriation of \$5,000,000 in 1985-86 may be necessary in order to fully fund the City's Workers' Compensation Program.

We recommended that the Administration take into consideration the potential \$5,000,000 shortage in the Workers' Compensation Program when refined Program needs are prepared in late September 1985.

City Venture Corporation Audit (December 1985)

We reviewed a private for-profit company that received a total of \$269,515 in Community Development Block (CDBG) grant funds from the City. The Company contracted to provide services that would facilitate the establishment and expansion of small businesses and create jobs on the East Side of San Jose.

The review found, that of the \$269,535 the City of San Jose paid City Venture Corporation (CVC), \$109,073 was for overhead costs. Our review revealed that these overhead costs were not determined in accordance with applicable Federal regulations. As a result, the City of San Jose is potentially liable to repay the Federal Government \$109,073 it paid to CVC for overhead costs.

Further, we found that the contract between the City and CVC did not contain a detailed line-item budget, which left the City at a disadvantage in controlling and monitoring project expenses. However, we found that most of the direct costs charged to the project were reasonable and appear to be allowable. An exception was \$400 in air fare charges inappropriately charged to the San Jose project.

As requested, we also found that CVC provided most, but not all, of the services required in their final contract with the City. There are no records available indicating that any businesses have been created or expanded or that any jobs have been created to date as a result of CVC's services.

We recommended that the City secure repayment of \$109,073 for CVC Corporate Costs and disallow \$400 for ineligible airfare costs. In addition, the City Council should direct the Neighborhood Preservation Office to 1) require line-item budgets in all contracts with organizations receiving CDBG funds and 2) provide project summaries of expected benefits.

Deferred Compensation Plan (February 1986)

Our review of the Deferred Compensation Committee's administration of the City's Deferred Compensation Plan (Plan) revealed the following:

- o Some Plan participants deferred more income than the I.R.S. regulations allow
- o The Committee has not monitored the Plan investment companies to ensure that they comply with the terms of their agreements with the City

Specifically, we found that 90 Plan participants deferred more income in tax year 1984 than the IRS regulations allow. The Personnel Department, which has responsibility for monitoring employee contributions, has not developed and implemented

written procedures to ensure that employees do not contribute more than the regulations allow.

In addition, the Plan investment companies have not complied with provisions of the agreements intended to protect the Plan's assets. As a result, the City has no assurance that the Plan's assets are adequately insured.

The Deferred Compensation Advisory Committee, which has overall responsibility for administering the Plan, has not monitored the investment companies because formal responsibility to do so has not been assigned. As a result, no City Department or employee is performing this function.

Further, our review found that the Deferred Compensation Advisory Committee has not developed a written policy manual to guide the implementation of the Plan's objectives and to provide consistency in administration of the Plan.

Finally, our review found that the City Council may need to take action to resolve a conflict between the City Charter and a City Council Resolution.

We recommended the following: formal assignment of responsibility for monitoring investment companies, development of a written Plan policy manual, and development of Employee Contribution procedures.

City Payroll Disbursements (March 1986)

We conducted an audit of the City's payroll disbursements for the six-month period covering December 1984 through June 1985. The audit revealed that, of the 207 payroll payments tested, we noted 40 exceptions, including eight that affected gross pay. The gross pay error occurrence rate of 3.9% found in the sample exceeds the gross pay error rate found in the previous year's samples. The majority of these errors (6 of 8) were due to an incorrect night shift premium rate that resulted in relatively minor overpayments for each affected employee. The dollar effect of the gross pay errors (\$89.20) was .037% of the total gross pay tested. In addition, the noncompliance error rate of 2.2% found in this period's sample exceeded that found in the previous year's samples.

We recommended that: the format and level of detail for labor compensation changes be standardized for payroll purposes, manual payroll changes be periodically audited, and that Department timekeepers be reoriented to timekeeping requirements.

Non-Personal Expenditures (March 1986)

Our audit of the City's Non-Personal Expenditures for fiscal year 1984-85 disclosed that the City of San Jose could have saved a minimum of \$8,700, and possibly as much as \$265,500

in 1984-85, by instituting new procedures or following established procedures relating to payment of non-personal expenditures.

We also identified various internal control weaknesses which have caused noncompliance with established City policies and procedures. When compared to 1983-84, the 1984-85 level of accuracy and compliance with established procedures has declined significantly.

We made five recommendations regarding the establishment of voucher processing and payment request auditing procedures, record maintenance, and Departmental training for preparing payment requests.

Cash and Revenue Audit (April 1986)

Our audit of departmental petty cash and change funds for fiscal year 1984-85 covered approximately one-third of the assigned funds (40% of the total dollar value of the funds) and found that the funds were substantially intact. However, we found that some of the fund custodians were not certain how to handle overages or shortages in their cash funds. These uncertainties were the result of inadequate City guidelines and established procedures.

In addition, our review of revenue deposits by City Departments showed that of ten departments selected for testing, five departments did not promptly deposit their revenue with the Finance Department. The late deposits included 253 checks totaling \$39,903.85 that were deposited from two to twenty-seven days late. The largest late check was \$21,773, which was deposited ten days late. The longest delay noted was 27 days.

We recommended that the Finance Department: amend Section 252E of the City Administrative Manual to include petty cash policies and procedures, and revise the Petty Cash Reimbursement Voucher form.

City Franchised Towing (April 1986)

Our review of financial statements for the nine franchise towing companies for the most recent fiscal or calendar year indicated that as a group the companies lost approximately \$390,000 on City-generated towing business during 1985. Further analysis revealed that while emergency tows were more profitable than abandoned vehicle tows, only three of the nine franchise towing companies made an overall profit on City-generated tows.

In addition, according to various franchisee representatives, rapidly escalating insurance costs justify a significant increase of the City's established maximum allowable tow charge of \$49.00. They also voiced concern that the 13 percent franchise fee is onerous given the lack of profitability on City-generated business. Our analysis revealed that in no instance did the imposition of the Franchise Fee mean the difference between a franchisee making a profit or incurring a loss on City-generated tows.

Finally, based upon our analysis, it is readily apparent that abandoned vehicles are a major source of franchisee operating losses.

We recommended that the Administration consider recommending the following to the City Council: provide some temporary relief from franchise fees to the towing companies, pay a temporary subsidy to the companies to partially offset their costs, and impose stringent recordkeeping requirements on the towing companies.

Parking Operations (June 1, 1986)

Our audit of the City's Parking Operations included on-street metered parking and off-street parking lots and garages, but excluded the airport's parking facilities. The

review revealed a pervasive absence of adequate controls which makes parking revenues susceptible to undetected misappropriation. In view of the inadequacy of internal controls, we expanded our tests. Assuming our test results were representative of weekly parking meter collections, our observed loss approximated \$14,000 per year. It should be noted that our test of parking meter collections did not prove conclusively that revenue losses were in fact occurring.

Our review also indicated that the current parking meter zones are not in consonance with the Municipal Code. Specifically, some designated parking meter zones do not have parking meters. We estimate that if as few as 100 parking meters were installed in these zones, the City could collect an additional \$52,000 per year in parking meter revenues.

Our review of the City's off-street parking revealed that internal controls over revenues are insufficient because of non-existent or malfunctioning equipment and inadequate ticket accounting procedures. Non-existent or unreliable equipment has resulted in reliance on parking attendants' handwritten notations to account for customers' parking time and fees. This situation has existed since at least 1983.

Our review also disclosed inadequate City contract monitoring of the contract with the garage and lot operator.

As a result, significant contract noncompliances for the operation and maintenance of the City's parking facilities are occurring without City detection or corrective action being taken. Observed noncompliances have resulted in failure to 1) account for parking tickets; 2) account for City-owned equipment; and 3) prove that required insurances are in place.

Finally, our review disclosed that the transfers of two parking lots to the San Jose Redevelopment Agency were not recorded in the Parking System's accounting records.

We made 32 specific recommendations covering such things as: replacing parking meter equipment, revising collection and maintenance procedures, records maintenance, bank deposit handling, initiating new ordinances, equipment inventory control, and contract monitoring of lot operators.

City Purchasing Audit (August 1986)

Our review of the timeliness of the City's purchasing process found that the Department of General Services' Materials Management Division (Purchasing) could improve the timeliness of the process. Specifically, we found the following:

- o Opportunities exist to significantly improve Purchasing's responsiveness to purchase requisitions;
- o Purchasing needs to improve its monitoring of vendor performance;

- o Purchasing can reduce Central Warehouse processing time and operating costs; and
- o Purchasing needs to modify its performance goals and its management reports to adequately evaluate its performance.

As a result, Purchasing is not always getting needed goods and services to departments in a timely manner.

We made 12 recommendations covering such items as: increasing petty cash funds, developing and/or revising procedures, providing training to City departments, and implementing a vendor performance and disciplinary system.

INVESTMENT COMPLIANCE REVIEWS

City and Redevelopment Agency Investment Reviews (September 1985 - August 1986)

We issued series of seven reports covering compliance of the City and Redevelopment Agency investments with the City and Redevelopment Agency's Investment Policies, safekeeping of securities, and investment documentation. A summary of the findings and recommendations follows.

Review of September 1985 Transactions (November 1985):

This review revealed no exceptions to Policy requirements regarding types of instrument, maturity, issuer ratings and portfolio mix. However, during our review we noted that noncompliance with the City's Investment Policy might go undetected for as long as three weeks. This could occur because Finance staff did not maintain or utilize the MONEymax system, the City's primary tool for managing its investment portfolio, on a timely basis.

In addition, improvements were required to insure prompt recordation of investment revenues. Further, procedural changes were needed for: documentation of daily investment decisions; compliance with Policy requirements regarding prequalification of financial institutions; and proper reconciliations of investment transactions.

We made 12 recommendations regarding: timely data entry; staff training in the use of MONEYMAX; procedure development; maintenance of proper accounting documentation, and verification of investment information.

Review of October 1985 Transactions (January 1986):

This review identified that the Administration did not comply with 7 of the 33 policy elements tested. These observed noncompliances were with Policy provisions regarding investment safety and security.

In addition, the Finance Department had, through its written procedures and/or its investment decisions, made certain interpretations of the City's Investment Policy which in our opinion needed to be reviewed.

Further, we identified certain weaknesses in internal control. And, we determined that Finance did not always maintain adequate documentation for investment transactions. In some instances, Finance did not require the documentation, while in other instances, the documentation was required, but not consistently maintained. Such documentation is necessary to facilitate 1) third party review of investment activities 2) day-to-day investment activities, and 3) management oversight of the investment program.

Finally, we conducted a follow-up on implementation of recommendations contained in our review of September 1985 investment transactions. We found that, in most instances, Finance was implementing recommendations and that improvements have resulted. We made 12 new recommendations regarding: execution of Safekeeping agreements; collateralization of repurchase agreements; development of specific control procedures; accounting of receipts; and maintenance of the MONEYMAX system.

*Review of November and December 1985
Transactions (February 1986):*

Our review indicated that the Finance Department had complied with Policy provisions regarding authorized instruments, maturity limits and issuer rating. Finance had reported all Policy exceptions other than those which require Policy interpretation. Finance was implementing procedures to monitor repurchase collateral and was developing the requisite formal agreements for safekeeping, dealer services and repurchase transactions. In addition, we determined that Finance is taking steps to comply with other prior audit recommendations.

Finally, we identified the following Policy areas which require that Finance either obtain legal interpretation or document its own Policy interpretations: 1) legal requirements

for an independent third party custodian, 2) legal review of dealer provided master repurchase agreements, 3) documentation of Finance Policy interpretations, and 4) identification and analysis of State and Federal laws applicable to the Investment program.

We recommended that Finance do the following: obtain a legal opinion regarding a third party custodian for securities; execute dealer agreements; document its policy interpretations; and compile and analyze state and federal laws applicable to the investment program.

*Review of January and February 1986
Transactions (April 1986):*

This review indicated that Finance has generally complied with Investment Policy requirements. Noncompliance continued in areas which required more in-depth staff work and legal assistance. These areas included evaluating dealer financial condition, executing formal dealer and safekeeping agreements and expediting delivery of transaction confirmations. Improvements in documentation and control procedures were occurring.

The review also indicated that Finance was taking steps to comply with prior audit recommendations. Of the 25 recommendations contained in the reviews of September, October, November, and December 1985 Investments:

- o Seven were fully implemented,
- o Two were combined with other recommendations,
- o Five were implemented, but procedures need improvement, and
- o Eleven were in progress.

*Review of March and April 1986
Transactions (June 1986):*

This review indicated that Finance had generally complied with Investment Policy requirements. We did note, however, three instances of technical noncompliance in the areas of dealer prequalification and issuer rating. Noncompliance continued in areas which include evaluating dealer financial condition, executing formal dealer and safekeeping agreements and expediting delivery of transaction confirmations. Improvements in documentation and control procedures were occurring.

Our review also indicated that, of the 25 recommendations contained in the reviews of September, October, November-December 1985, and January-February 1986 Investments:

- o Thirteen had been fully implemented,
- o Two were combined with other recommendations,
- o Four were implemented, but procedures need improvement, and
- o Six were in progress.

In addition, we also recommended that Finance: obtain Private Sector Panel approval of alternative dealer financial information requirements, include instructions regarding policy in the investment procedures, and report all technical exceptions to the investment policy to the Finance Committee.

*Review of May and June 1986
Transactions (August 1986)*

This review indicated that Finance had generally complied with Investment Policy requirements. We did note 1) untimely City confirmation of investment purchase transactions and 2) that Redevelopment Accounting is not date-stamping dealer confirmations, safekeeping receipts/releases, and debit and credit advices.

Noncompliance continued in areas which include evaluating dealer financial condition, executing formal dealer and safekeeping agreements and expediting delivery of transaction confirmations. Improvements in documentation and control procedures were occurring.

Our review also indicated that of the 28 recommendations contained in the reviews of September, October, November-December 1985, January-February 1986 and March-April 1986 investments:

- o Fourteen had been fully implemented,
- o Two were combined with other recommendations,
- o Four were implemented, but procedures need improvement, and
- o Eight were in progress.

In addition, we also recommended that: Treasury log the dates telephone transactions are mailed to banks and; Redevelopment date-stamp as received dealer confirmations, safe-keeping receipts/releases, and debit and credit advices.

*Review of July and August 1986
Transactions (September 1986)*

This review indicated that Finance has generally complied with Investment Policy requirements. Noncompliance continues in areas which include evaluating dealer financial condition, and executing formal dealer and safekeeping agreements. Improvements in documentation and control procedures are occurring.

Our review also indicated that, of the 30 recommendations contained in reviews of September, October, November-December 1985, January-February 1986, March-April 1986 and May-June 1986 investments:

- o Nineteen had been fully implemented,
- o Two were combined with other recommendations,
- o One was implemented, but procedures need improvement, and
- o Eight were in progress.

SPECIAL ANALYSES

Agenda Analysis (May and June 1986)

At the request of the City Council, the City Auditor's Office prepared analyses of four Council Agendas for May 6, 13, and 20, and June 3, 1986. There were a total of 89 items analyzed based upon financial and economic impact criteria. These four Agenda Analysis contained recommendations to reduce expenditures by \$223,434.

City Budget Analysis (June 1986)

Also at the request of the City Council, the City Auditor's Office was directed to prepare an analysis of the proposed 1986-87 City Budget. Due to workload considerations and the experience of the contractor, the City Auditor contracted the analysis to the Harvey Rose Accountancy Corporation of San Francisco. As a result of the analysis, the following recommendations were made:

- o The Public Works budget should be reduced \$2,553,549.
- o Finance's Parking Division budget should be reduced \$20,381.
- o City Council should request that the Administration and the City Clerk report whether high personnel vacancy rates are likely to continue into FY 1986-87. Further, the City Council should adjust the vacancy savings amounts in the budget accordingly.
- o City Council request that the Administration explain the significant base budget increases.
- o City Council should direct that City budget system issues be addressed by 1) Finance's proposed accounting system study, 2) the proposed Public Works management study, and 3) OMB.

OTHER REVIEWS

Review of Weed Abatement Program Billings (October 1985)

A review of the Program billings for the period 1 July 1985 through 22 September 1985 indicated that the outside contractor significantly overbilled the City for services during this time period. Based on varying assumptions, we concluded that the City had been overbilled anywhere from \$37,000 to as much as \$91,300 for the period.

Requirements for Auditing the EDA Revolving Loan Fund (January 1986)

In this requirements review, the City Auditor suggested that measures be taken to facilitate the Program's future auditability. For example, the Fund Administrator should 1) develop measurable performance indicators, 2) define specific terms, 3) specify the content of loan files, and 4) maintain specific records.

Review of Business Relocation (March 1986)

The City Auditor reviewed the eligibility of a business relocation payment claim and found that the claimant lacked required tax certification. Without such certification, payment in lieu of moving and relocation expenses cannot be authorized.

Implementation of the Fair
Labor Standards Act (August 1985)

At the request of the City Administration, the City Auditor reviewed the City's methodology for computing overtime to ensure compliance with the Federal Act. The review revealed a variety of methodological problems concerning compensatory time, paid absences, observance of holidays, and issues relating specifically to Fire Suppression personnel.

Review of Federated Retirement Fund
Interest Earning (June 1986)

A review of Finance Department procedures indicated that the Retirement Fund was not being credited with any interest earnings from the City's investment program. We also found that the Fund was not earning interest on the City's contribution to the Retirement Fund. As a result, we estimated the lost interest to be about \$28,000 over a 12-month period.

Analysis of the City of San Jose Redevelopment
Agency Tax Increment Revenues From the
Merged Area (February 1986)

At the request of the Redevelopment Agency Board, the City Auditor reviewed the Redevelopment Agency's five year revenue projections. In order to obtain appropriate expertise the City Auditor retained the services of SRI intentional to assist in this review. The results of this review were 1) a written report

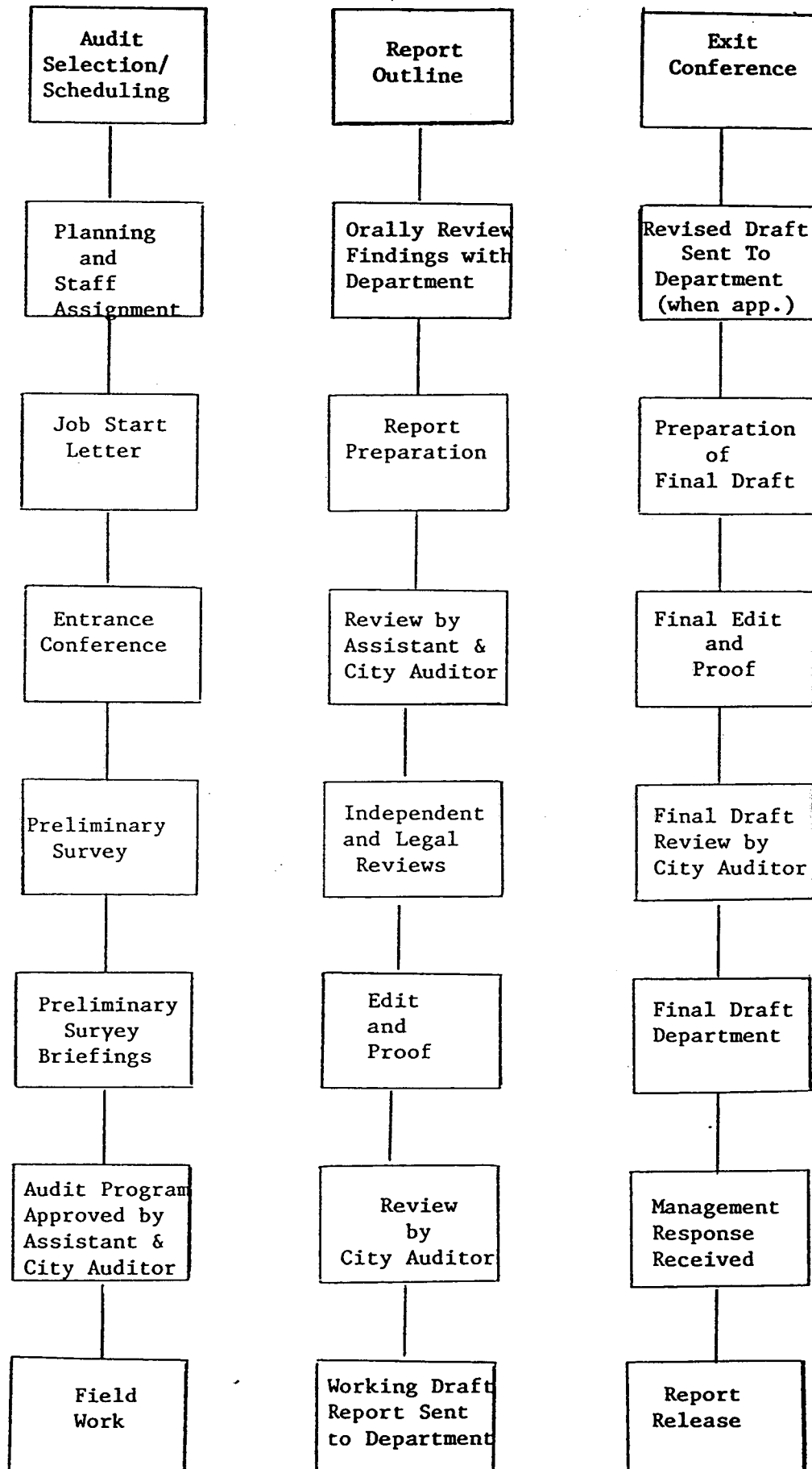
from SRI International and 2) an oral report from the City Auditor. The SRI International report chronicled the development of the Agency's revenue forecasting model and critiqued current Agency assumptions. The SRI report concluded that the Agency's worst case forecast may be the best one to use for forecasting future Agency tax increments.

The City Auditor's oral report expanded on SRI's analysis and questioned the validity of the Agency's land, construction, absorption and tax rate assumptions.

*Analysis of Alternative Redevelopment Agency
Financing Options (October 1985)*

At the request of the Redevelopment Agency Board, the City Auditor made an oral presentation on the advantages and disadvantages of using Tax Allocation Bonds versus Certificates of Participation to finance Redevelopment Agency projects.

APPENDIX I
AUDIT PROCESS CHRONOLOGY



APPENDIX II

STANDARDS FOR AUDIT OF
GOVERNMENTAL ORGANIZATIONS, PROGRAMS,
ACTIVITIES, AND FUNCTIONS

SUMMARY OF STANDARDS

A. Scope of Audit Work

The expanded scope of auditing a government organization, a program, an activity, or a function should include:

1. Financial and compliance - determines a) whether the financial statements of an audited entity present fairly the financial position and the results of financial operations in accordance with generally accepted accounting principles and b) whether the entity has complied with laws and regulations that may have a material effect upon the financial statements.
2. Economy and efficiency - determines a) whether the entity is managing and utilizing its resources (such as personnel, property, space) economically and efficiently, b) the causes of inefficiencies or uneconomical practices, and c) whether the entity has complied with laws and regulations concerning matters of economy and efficiency.
3. Program results - determines a) whether the desired results or benefits established by the legislature or other authorizing body are being achieved and b) whether the agency has considered alternatives that might yield desired results at a lower cost.

In determining the scope for a particular audit, responsible audit and entity officials should consider the needs of the potential users of audit findings.

B. General Standards

1. Qualifications: The auditors assigned to perform the audit must collectively possess adequate professional proficiency for the tasks required.
2. Independence: In all matters relating to the audit work, the audit organization and the individual auditors, whether government or public, must be free from personal or external impairments to independence, must be organizationally independent, and shall maintain an independent attitude and appearance.
3. Due professional care: Due professional care is to be used in conducting the audit and in preparing related reports.
4. Scope impairments: When factors external to the audit organization and the auditor restrict the audit or interfere with the auditor's ability to form objective opinions and conclusions, the auditor should attempt to remove the limitation or, failing that, report the limitation.

C. Examining and Evaluation (Field Work) and Reporting Standards for Financial and Compliance Audits

1. AICPA Statements on Auditing Standards for field work and reporting are adopted and incorporated in this statement for government financial and compliance audits. Future statements should be adopted and incorporated, unless GAO excludes them by formal announcement.
2. Additional standards and requirements for government financial and compliance audits.
 - a. Standards on examination and evaluation:
 1. Planning shall include consideration of the requirements of all levels of government.
 2. A review is to be made of compliance with applicable laws and regulations.
 3. A written record of the auditors' work shall be retained in the form of working papers.

4. Auditors shall be alert to situations or transactions that could be indicative of fraud, abuse, and illegal expenditures and acts and if such evidence exists, extend audit steps and procedures to identify the effect on the entity's financial statements.

b. Standards on reporting:

1. Written audit reports are to be submitted to the appropriate officials of the organization audited and to the appropriate officials of the organizations requiring or arranging for the audits unless legal restrictions or ethical considerations prevent it. Copies of the report should also be sent to other officials who may be responsible for taking action and to others authorized to receive such reports. Unless restricted by law or regulation, copies should be made available for public inspection.
2. A statement in the auditors' report that the examination was made in accordance with generally accepted government auditing standards for financial and compliance audits will be acceptable language to indicate that the audit was made in accordance with these standards. (See Chapter V, Paragraph 2b for AICPA-suggested language).
3. Either the auditors' report on the entity's financial statements or a separate report shall contain a statement of positive assurance on those items of compliance tested and negative assurance on those items not tested. It shall also include material instances of noncompliance and instances or indications of fraud, abuse, or illegal acts found during or in connection with the audit.
4. The auditors shall report on their study and evaluation of internal accounting controls made as part of the financial and compliance audit. They shall identify as a minimum:
 - a) the entity's significant internal accounting controls, b) the controls identified that were evaluated, c) the controls identified that were not evaluated (the auditor may satisfy this requirement by identifying any significant classes of

transactions and related assets not included in the study and evaluation), and d) the material weaknesses identified as a result of the evaluation.

5. Either the auditors' report on the entity's financial statements or a separate report shall contain any other material deficiency findings identified during the audit not covered in (3) above.

✓ 6. If certain information is prohibited from general disclosure, the report shall state the nature of the information omitted and the requirement that makes the omission necessary.

D. Examination and Evaluation Standards for Economy and Efficiency Audits and Program Result Audits

1. Work is to be adequately planned.
2. Assistants are to be properly supervised.
3. A review is to be made of compliance with applicable laws and regulations.
4. During the audit a study and evaluation shall be made of the internal control system (administrative controls) applicable to the organization, program, activity, or function under audit.
5. When audits involve computer-based systems, the auditors shall:
 - a. Review general controls in data processing systems to determine whether 1) the controls have been designed according to management direction and known legal requirements and 2) the controls are operating effectively to provide reliability of, and security over, the data being processed.
 - b. Review application controls of installed data processing applications upon which the auditor is relying to assess their reliability in processing data in a timely, accurate, and complete manner.

6. Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditors' judgments and conclusions regarding the organization, program, activity, or function under audit. A written record of the auditors' work shall be retained in the form of working papers.

7. The auditors shall:

- a. Be alert to situations or transactions that could be indicative of fraud, abuse, and illegal acts.
- b. If such evidence exists, extend audit steps and procedures to identify the effect on the entity's operations and programs.

E. Reporting Standards for Economy and Efficiency Audits and Program Results Audits

- 1. Written audit reports are to be prepared giving the results of each government audit.
- 2. Written audit reports are to be submitted to the appropriate officials of the organization audited and to the appropriate officials of the organizations requiring or arranging for the audits unless legal restrictions or ethical considerations prevent it. Copies of the reports should also be sent to other officials who may be responsible for taking action on audit findings and recommendations and to others authorized to receive such reports. Unless restricted by law or regulation, copies should be made available for public inspection.
- 3. Reports are to be issued on or before the dates specified by law, regulation, or other special arrangement. Reports are to be issued promptly so as to make the information available for timely use by management and by legislative officials.
- 4. The report shall include:
 - a. A description of the scope and objectives of the audit.
 - b. A statement that the audit (economy and efficiency or program results) was made in accordance with generally accepted government auditing standards.

- c. A description of material weaknesses found in the internal control system (administrative controls)
 - d. A statement of positive assurance on those items of compliance-tested and negative assurance on those items not tested. This should include significant instances of noncompliance and instances of or indications of fraud, abuse, or illegal acts found during or in connection with the audit. However, fraud, abuse, or illegal acts normally should be covered in a separate report, thus permitting the overall report to be released to the public.
 - e. Recommendations for actions to improve problem areas noted in the audit and to improve operations. The underlying causes of problems reported should be included to assist in implementing corrective actions.
 - f. Pertinent views of responsible officials of the organization, program, activity, or function audited concerning the auditors' findings, conclusions, and recommendations. When possible, their views should be obtained in writing.
 - g. A description of noteworthy accomplishments, particularly when management improvements in one area may be applicable elsewhere.
 - h. A listing of any issues and questions needing further study and consideration.
 - i. A statement as to whether any pertinent information has been omitted because it is deemed privileged or confidential. The nature of such information should be described, and the law or other basis under which it is withheld should be stated. If a separate report was issued containing this information it should be indicated in the report.
5. The report shall:
- a. Present factual data accurately and fairly. Include only information, findings, and conclusions that are adequately supported by sufficient evidence in the auditors' working papers to demonstrate or prove the bases for the matters reported and their correctness and reasonableness

- b. Present findings and conclusions in a convincing manner.
- c. Be objective.
- d. Be written in language as clear and simple as the subject matter permits.
- e. Be concise but, at the same time, clear enough to be understood by users.
- f. Present factual data completely to fully inform the users.
- g. Place primary emphasis on improvement rather than on criticism of the past; critical comments should be presented in a balance perspective considering any unusual difficulties or circumstances faced by the operating officials concerned.

APPENDIX III

PROCEDURE FOR OBTAINING CITY COUNCIL APPROVAL OF REQUESTED CITY AUDITOR ASSIGNMENTS

- I. City Council members or the City Manager submit request for City Auditor services to the Finance Committee.
 - A. Any specific information or areas to be reviewed should be identified in the request.
- II. The Finance Committee will forward the request to the City Auditor.
- III. The City Auditor will review the request and respond back to the Finance Committee at its next meeting regarding the following factors.
 - The availability of audit staff and resources.
 - Any external time constraints relative to the requested assignment.
 - Other factors the City Auditor deems important.
- IV. At its next meeting the Finance Committee will
 1. Review the City Auditor's response,
 2. Approve or disapprove the requested assignment, and
 3. Communicate its decision to the City Auditor, the City Council and the assignment requestor.
- V. Upon Finance Committee approval of an audit assignment, the City Auditor will initiate the assignment as soon as staff become available.
- VI. The City Auditor will report monthly to the Finance Committee the status of approved audit assignments.
- VII. The City Auditor may respond immediately to requests from the City Manager, City Attorney or City Clerk for services when the request indicates an emergency situation exists. The City Auditor will report to the Finance Committee at its next meeting:
 - Any requests for immediate response received,
 - What action was taken, and
 - The disposition of the request.